

Fundamentals Level – Knowledge Module

[www.ibrahimobaidullah.blogspot.com](http://www.ibrahimobaidullah.blogspot.com)

# Financial Accounting

Specimen Exam applicable from June 2014

[www.ibrahimobaidullah.blogspot.com](http://www.ibrahimobaidullah.blogspot.com)

**Time allowed:** 2 hours

This paper is divided into two sections:

Section A – ALL 35 questions are compulsory and **MUST** be attempted

Section B – BOTH questions are compulsory and **MUST** be attempted

**Do NOT open this paper until instructed by the supervisor.**

**This question paper must not be removed from the examination hall.**

[www.ibrahimobaidullah.blogspot.com](http://www.ibrahimobaidullah.blogspot.com)

**The Association of Chartered Certified Accountants**

3  
F  
r  
a  
p  
p  
e  
r

**ACCA**

**Section A – ALL 35 questions are compulsory and MUST be attempted**

Please use the space provided on the inside cover of the Candidate Answer Booklet to indicate your chosen answer to each multiple choice question.

Each question is worth 2 marks.

**1 Which of the following calculates a sole trader's net profit for a period?**

- A** Closing net assets + drawings – capital introduced – opening net assets
- B** Closing net assets – drawings + capital introduced – opening net assets
- C** Closing net assets – drawings – capital introduced – opening net assets
- D** Closing net assets + drawings + capital introduced – opening net assets

**2 Which of the following explains the imprest system of operating petty cash?**

- A** Weekly expenditure cannot exceed a set amount
- B** The exact amount of expenditure is reimbursed at intervals to maintain a fixed float
- C** All expenditure out of the petty cash must be properly authorised
- D** Regular equal amounts of cash are transferred into petty cash at intervals

**3 Which of the following statements are TRUE of limited liability companies?**

- (1) The company's exposure to debts and liability is limited
- (2) Financial statements must be produced
- (3) A company continues to exist regardless of the identity of its owners

- A** 1 and 2 only
- B** 1 and 3 only
- C** 2 and 3 only
- D** 1, 2 and 3

**4 Annie is a sole trader who does not keep full accounting records. The following details relate to her transactions with credit customers and suppliers for the year ended 30 June 20X6:**

	\$
Trade receivables, 1 July 20X5	130,000
Trade payables, 1 July 20X5	60,000
Cash received from customers	686,400
Cash paid to suppliers	302,800
Discounts allowed	1,400
Discounts received	2,960
Contra between payables and receivables ledgers	2,000
Trade receivables, 30 June 20X6	181,000
Trade payables, 30 June 20X6	84,000

**What figure should appear for purchases in Annie's statement of profit or loss for the year ended 30 June 20X6?**

- A** \$325,840
- B** \$330,200
- C** \$331,760
- D** \$327,760

**5 Which TWO of the following errors would cause the total of the debit column and the total of the credit column of a trial balance not to agree?**

- (1) A transposition error was made when entering a sales invoice into the sales day book
- (2) A cheque received from a customer was credited to cash and correctly recognised in receivables
- (3) A purchase of non-current assets was omitted from the accounting records
- (4) Rent received was included in the trial balance as a debit balance

- A** 1 and 2
- B** 1 and 3
- C** 2 and 3
- D** 2 and 4

**6** At 31 December 20X5 the following require inclusion in a company's financial statements:

- (1) On 1 January 20X5 the company made a loan of \$12,000 to an employee, repayable on 1 January 20X6, charging interest at 2% per year. On the due date she repaid the loan and paid the whole of the interest due on the loan to that date.
- (2) The company paid an annual insurance premium of \$9,000 in 20X5, covering the year ending 31 August 20X6.
- (3) In January 20X6 the company received rent from a tenant of \$4,000 covering the six months to 31 December 20X5.

**For these items, what total figures should be included in the company's statement of financial position as at 31 December 20X5?**

- A** Current assets \$10,000                      Current liabilities \$12,240
- B** Current assets \$22,240                      Current liabilities \$nil
- C** Current assets \$10,240                      Current liabilities \$nil
- D** Current assets \$16,240                      Current liabilities \$6,000

**7** A company's statement of profit or loss for the year ended 31 December 20X5 showed a net profit of \$83,600. It was later found that \$18,000 paid for the purchase of a motor van had been debited to the motor expenses account. It is the company's policy to depreciate motor vans at 25% per year on the straight line basis, with a full year's charge in the year of acquisition.

**What would the net profit be after adjusting for this error?**

- A** \$106,100
- B** \$70,100
- C** \$97,100
- D** \$101,600

**8** Xena has the following working capital ratios:

	20X9	20X8
Current ratio	1.2:1	1.5:1
Receivables days	75 days	50 days
Payables days	30 days	45 days
Inventory turnover	42 days	35 days

**Which of the following statements is correct?**

- A** Xena's liquidity and working capital has improved in 20X9
- B** Xena is receiving cash from customers more quickly in 20X9 than in 20X8
- C** Xena is suffering from a worsening liquidity position in 20X9
- D** Xena is taking longer to pay suppliers in 20X9 than in 20X8

**9 Which of the following statements is/are correct?**

- (1) A statement of cash flows prepared using the direct method produces a different figure to net cash from operating activities from that produced if the indirect method is used
- (2) Rights issues of shares do not feature in a statement of cash flows
- (3) A surplus on revaluation of a non-current asset will not appear as an item in a statement of cash flows
- (4) A profit on the sale of a non-current asset will appear as an item under cash flows from investing activities in the statement of cash flows

- A** 1 and 3 only
- B** 3 and 4 only
- C** 2 and 4 only
- D** 3 only

**10** A company receives rent from a large number of properties. The total received in the year ended 30 April 20X6 was \$481,200.

The following were the amounts of rent in advance and in arrears at 30 April 20X5 and 20X6:

	30 April 20X5	30 April 20X6
	\$	\$
Rent received in advance	28,700	31,200
Rent in arrears (all subsequently received)	21,200	18,400

**What amount of rental income should appear in the company's statement of profit or loss for the year ended 30 April 20X6?**

- A** \$486,500
- B** \$460,900
- C** \$501,500
- D** \$475,900

**11 Which of the following are differences between sole traders and limited liability companies?**

- (1) A sole trader's financial statements are private and never made available to third parties; a company's financial statements are sent to shareholders and may be publicly filed
- (2) Only companies have share capital
- (3) A sole trader is fully and personally liable for any losses that the business might make
- (4) Drawings would only appear in the financial statements of a sole trader

- A** 1 and 4 only
- B** 2, 3 and 4
- C** 2 and 3 only
- D** 1, 3 and 4

**12 Which of the following statements is true?**

- A** The interpretation of an entity's financial statements using ratios is only useful for potential investors
- B** Ratios based on historical data can predict the future performance of an entity
- C** The analysis of financial statements using ratios provides useful information when compared with previous performance or industry averages
- D** An entity's management will not assess an entity's performance using financial ratios

- 13 A company's motor vehicles cost account at 30 June 20X6 is as follows:

Motor vehicles – cost			
	\$		\$
Balance b/f	35,800	Disposal	12,000
Additions	12,950	Balance c/f	36,750
	<u>48,750</u>		<u>48,750</u>

**What opening balance should be included in the following period's trial balance for Motor vehicles – cost at 1 July 20X6?**

- A** \$36,750 Dr  
**B** \$48,750 Dr  
**C** \$36,750 Cr  
**D** \$48,750 Cr
- 14 Which TWO of the following items must be disclosed in the note to the financial statements for intangible assets?
- (1) The useful lives of intangible assets capitalised in the financial statements
  - (2) A description of the development projects that have been undertaken during the period
  - (3) A list of all intangible assets purchased or developed in the period
  - (4) Impairment losses written off intangible assets during the period
- A** 1 and 4  
**B** 2 and 3  
**C** 3 and 4  
**D** 1 and 2
- 15 Which of the following statements are correct?
- (1) Capitalised development expenditure must be amortised over a period not exceeding five years.
  - (2) Capitalised development costs are shown in the statement of financial position under the heading of non-current assets
  - (3) If certain criteria are met, research expenditure must be recognised as an intangible asset.
- A** 2 only  
**B** 2 and 3  
**C** 1 only  
**D** 1 and 3
- 16 The following transactions relate to Rashid's electricity expense ledger account for the year ended 30 June 20X9:

	\$
Prepayment brought forward	550
Cash paid	5,400
Accrual carried forward	650

**What amount should be charged to the statement of profit or loss in the year ended 30 June 20X9 for electricity?**

- A** \$6,600  
**B** \$5,400  
**C** \$5,500  
**D** \$5,300

- 17** At 30 June 20X5 a company's allowance for receivables was \$39,000. At 30 June 20X6 trade receivables totalled \$517,000. It was decided to write off debts totalling \$37,000 and to adjust the allowance for receivables to the equivalent of 5% of the trade receivables based on past events.

**What figure should appear in the statement of profit or loss for the year ended 30 June 20X6 for receivables expense?**

- A** \$61,000
- B** \$52,000
- C** \$22,000
- D** \$37,000

- 18** The total of the list of balances in Valley's payables ledger was \$438,900 at 30 June 20X6. This balance did not agree with Valley's payables ledger control account balance. The following errors were discovered:

- (1) A contra entry of \$980 was recorded in the payables ledger control account, but not in the payables ledger.
- (2) The total of the purchase returns daybook was undercast by \$1,000.
- (3) An invoice for \$4,344 was posted to the supplier's account as \$4,434.

**What amount should Valley report in its statement of financial position for accounts payable at 30 June 20X6?**

- A** \$436,830
- B** \$438,010
- C** \$439,790
- D** \$437,830

- 19** According to IAS 2 *Inventories*, which TWO of the following costs should be included in valuing the inventories of a manufacturing company?

- (1) Carriage inwards
- (2) Carriage outwards
- (3) Depreciation of factory plant
- (4) General administrative overheads

- A** 1 and 4
- B** 1 and 3
- C** 3 and 4
- D** 2 and 3

- 20** Prisha has not kept accurate accounting records during the financial year. She had opening inventory of \$6,700 and purchased goods costing \$84,000 during the year. At the year end she had \$5,400 left in inventory. All sales are made at a mark up on cost of 20%.

**What is Prisha's gross profit for the year?**

- A** \$13,750
- B** \$17,060
- C** \$16,540
- D** \$20,675

**21** At 31 December 20X4 a company's capital structure was as follows:

	\$
Ordinary share capital (500,000 shares of 25c each)	125,000
Share premium account	100,000

In the year ended 31 December 20X5 the company made a rights issue of 1 share for every 2 held at \$1 per share and this was taken up in full. Later in the year the company made a bonus issue of 1 share for every 5 held, using the share premium account for the purpose.

**What was the company's capital structure at 31 December 20X5?**

	Ordinary share capital	Share premium account
<b>A</b>	\$450,000	\$25,000
<b>B</b>	\$225,000	\$250,000
<b>C</b>	\$225,000	\$325,000
<b>D</b>	\$212,500	\$262,500

**22** Which of the following should appear in a company's statement of changes in equity?

- (1) Total comprehensive income for the year
- (2) Amortisation of capitalised development costs
- (3) Surplus on revaluation of non-current assets

- A** 1, 2 and 3  
**B** 2 and 3 only  
**C** 1 and 3 only  
**D** 1 and 2 only

**23** The plant and machinery account (at cost) of a business for the year ended 31 December 20X5 was as follows:

Plant and machinery – cost			
20X5	\$	20X5	\$
1 Jan Balance b/f	240,000	31 Mar Transfer to disposal account	60,000
30 Jun Cash purchase of plant	160,000	31 Dec Balance c/f	340,000
	400,000		400,000

The company's policy is to charge depreciation at 20% per year on the straight line basis, with proportionate depreciation in the years of purchase and disposal.

**What should be the depreciation charge for the year ended 31 December 20X5?**

- A** \$68,000  
**B** \$64,000  
**C** \$61,000  
**D** \$55,000

**24** The following extracts are from Hassan's financial statements:

	\$
Profit before interest and tax	10,200
Interest	(1,600)
Tax	(3,300)
Profit after tax	<u>5,300</u>
Share capital	20,000
Reserves	<u>15,600</u>
	35,600
Loan liability	<u>6,900</u>
	<u>42,500</u>

**What is Hassan's return on capital employed?**

- A** 15%
- B** 29%
- C** 24%
- D** 12%

**25** Which of the following statements about sales tax is/are true?

- (1) Sales tax is an expense to the ultimate consumer of the goods purchased
- (2) Sales tax is recorded as income in the accounts of the entity selling the goods

- A** 1 only
- B** 2 only
- C** Both 1 and 2
- D** Neither 1 nor 2

**26** Q's trial balance failed to agree and a suspense account was opened for the difference. Q does not keep receivables and payables control accounts. The following errors were found in Q's accounting records:

- (1) In recording an issue of shares at par, cash received of \$333,000 was credited to the ordinary share capital account as \$330,000
- (2) Cash of \$2,800 paid for plant repairs was correctly accounted for in the cash book but was credited to the plant asset account
- (3) The petty cash book balance of \$500 had been omitted from the trial balance
- (4) A cheque for \$78,400 paid for the purchase of a motor car was debited to the motor vehicles account as \$87,400.

**Which of the errors will require an entry to the suspense account to correct them?**

- A** 1, 2 and 4 only
- B** 1, 2, 3 and 4
- C** 1 and 4 only
- D** 2 and 3 only



- 27** Prior to the financial year end of 31 July 20X9, Cannon Co has received a claim of \$100,000 from a supplier for providing poor quality goods which have damaged the supplier's plant and equipment. Cannon Co's lawyers have stated that there is a 20% chance that Cannon will successfully defend the claim.

**Which of the following is the correct accounting treatment for the claim in the financial statements for the year ended 31 July 20X9?**

- A** Cannon should neither provide for nor disclose the claim
- B** Cannon should disclose a contingent liability of \$100,000
- C** Cannon should provide for the expected cost of the claim of \$100,000
- D** Cannon should provide for an expected cost of \$20,000

- 28** Gareth, a sales tax registered trader purchased a computer for use in his business. The invoice for the computer showed the following costs related to the purchase:

	\$
Computer	890
Additional memory	95
Delivery	10
Installation	20
Maintenance (1 year)	25
	<hr/>
	1,040
Sales tax (17.5%)	182
	<hr/>
Total	1,222

**How much should Gareth capitalise as a non-current asset in relation to the purchase?**

- A** \$1,193
- B** \$1,040
- C** \$1,222
- D** \$1,015

- 29** The following bank reconciliation statement has been prepared by a trainee accountant:

	\$
Overdraft per bank statement	3,860
Less: Unpresented cheques	9,160
	<hr/>
	5,300
Add: Outstanding lodgements	16,690
	<hr/>
Cash at bank	21,990

**What should be the correct balance per the cash book?**

- A** \$21,990 balance at bank as stated
- B** \$3,670 balance at bank
- C** \$11,390 balance at bank
- D** \$3,670 overdrawn

- 30 The IASB's *Conceptual Framework for Financial Reporting* identifies characteristics which make financial information faithfully represent what it purports to represent.

**Which of the following are examples of those characteristics?**

- (1) Accruals
- (2) Completeness
- (3) Going concern
- (4) Neutrality

- A** 1 and 2
- B** 2 and 4
- C** 2 and 3
- D** 1 and 4

- 31 The following control account has been prepared by a trainee accountant:

Receivables ledger control account			
	\$		\$
Opening balance	308,600	Cash	147,200
Credit sales	154,200	Discounts allowed	1,400
Cash sales	88,100	Interest charged on overdue accounts	2,400
Contras	4,600	Irrecoverable debts	4,900
		Allowance for receivables	2,800
		Closing balance	396,800
	<u>555,500</u>		<u>555,500</u>

**What should the closing balance be when all the errors made in preparing the receivables ledger control account have been corrected?**

- A** \$395,200
- B** \$304,300
- C** \$309,500
- D** \$307,100

- 32 **Which of the following material events after the reporting date and before the financial statements are approved are adjusting events?**

- (1) A valuation of property providing evidence of impairment in value at the reporting date.
- (2) Sale of inventory held at the reporting date for less than cost.
- (3) Discovery of fraud or error affecting the financial statements.
- (4) The insolvency of a customer with a debt owing at the reporting date which is still outstanding.

- A** 1, 2 and 4 only
- B** 1, 2, 3 and 4
- C** 1 and 4 only
- D** 2 and 3 only

- 33** A company values its inventory using the FIFO method. At 1 May 20X5 the company had 700 engines in inventory, valued at \$190 each. During the year ended 30 April 20X6 the following transactions took place:

**20X5**

- |            |                                     |
|------------|-------------------------------------|
| 1 July     | Purchased 500 engines at \$220 each |
| 1 November | Sold 400 engines for \$160,000      |

**20X6**

- |            |                                     |
|------------|-------------------------------------|
| 1 February | Purchased 300 engines at \$230 each |
| 15 April   | Sold 250 engines for \$125,000      |

**What is the value of the company's closing inventory of engines at 30 April 20X6?**

- A** \$188,500
- B** \$195,500
- C** \$166,000
- D** \$106,000

- 34** Amy is a sole trader and had assets of \$569,400 and liabilities of \$412,840 on 1 January 20X8. During the year ended 31 December 20X8 she paid \$65,000 capital into the business and she paid herself wages of \$800 per month.

At 31 December 20X8, Amy had assets of \$614,130 and liabilities of \$369,770.

**What is Amy's profit for the year ended 31 December 20X8?**

- A** \$32,400
- B** \$23,600
- C** \$22,800
- D** \$87,800

- 35** Bumbly Co extracted the trial balance for the year ended 31 December 20X7. The total of the debits exceeded the credits by \$300.

**Which of the following could explain the imbalance?**

- A** Sales of \$300 were omitted from the sales day book
- B** Returns inward of \$150 were extracted to the debit column of the trial balance
- C** Discounts received of \$150 were extracted to the debit column of the trial balance
- D** The bank ledger account did not agree with the bank statement by a debit of \$300

**(70 marks)**

**Section B – BOTH questions are compulsory and MUST be attempted**

Please write your answer within the answer booklet in accordance with the detailed instructions provided within each of the questions in this section of the exam paper.

- 1 Keswick Co acquired 80% of the share capital of Derwent Co on 1 June 20X5. The summarised draft statements of profit or loss for Keswick Co and Derwent Co for the year ended 31 May 20X6 are shown below:

	Keswick Co \$000	Derwent Co \$000
Revenue	8,400	3,200
Cost of sales	(4,600)	(1,700)
Gross profit	3,800	1,500
Operating expenses	(2,200)	(960)
Profit before tax	1,600	540
Tax	(600)	(140)
Profit for the year	1,000	400

During the year Keswick Co sold goods costing \$1,000,000 to Derwent Co for \$1,500,000. At 31 May 20X6, 30% of these goods remained in Derwent Co's inventory.

**Required:**

- (a) Prepare the Keswick group consolidated statement of profit or loss for the year ended 31 May 20X6.

Note: The statement should stop once the consolidated profit for the year has been determined. The amounts attributable to the non-controlling interest and equity owners of Keswick are not required. Show all workings as credit will be awarded to these as appropriate. (7 marks)

- (b) Which of the following formulas describes the amount to be entered in the consolidated statement of profit or loss as '*Profit attributable to: Equity owners of Keswick Co*'?

- A Group profit after tax – non-controlling interest
- B Group profit after tax + non-controlling interest
- C Keswick Co's profit after tax
- D Group profit after tax

(2 marks)

- (c) What amount should be shown in the consolidated statement of profit or loss for the non-controlling interest?

(2 marks)

- (d) The following table shows factors to be considered when determining whether a parent–subsidiary relationship exists.

Factor	Description
A	Significant influence
B	Control
C	Non-controlling interest
D	Greater than 50% of the equity shares being held by an investor
E	100% of the equity shares being held by an investor
F	Greater than 50% of the preference shares being held by an investor
G	50% of all shares and all debt being held by an investor
H	Greater than 50% of preference shares and debt being held by an investor

**Required:**

**Which of the above factors A to H illustrate the existence of a parent–subsidiary relationship?** (4 marks)

**(15 marks)**

- 2 Malright, a limited liability company, has an accounting year end of 31 October. The accountant is preparing the financial statements as at 31 October 20X7 and requires your assistance. The following trial balance has been extracted from the general ledger

Account	Dr \$000	Cr \$000
Buildings at cost	740	
Buildings accumulated depreciation, 1 November 20X6		60
Plant at cost	220	
Plant accumulated depreciation, 1 November 20X6		110
Bank balance		70
Revenue		1,800
Net purchases	1,140	
Inventory at 1 November 20X6	160	
Cash	20	
Trade payables		250
Trade receivables	320	
Administrative expenses	325	
Allowance for receivables at 1 November 20X6		10
Retained earnings at 1 November 20X6		130
Equity shares, \$1		415
Share premium account		80
	<u>2,925</u>	<u>2,925</u>

The following additional information is also available:

- The allowance for receivables is to be increased to 5% of trade receivables. The allowance for receivables is treated as an administrative expense.
- Plant is depreciated at 20% per annum using the reducing balance method and buildings are depreciated at 5% per annum on their original cost. Depreciation is treated as a cost of sales expense.
- Closing inventory has been counted and is valued at \$75,000.
- An invoice of \$15,000 for energy costs relating to the quarter ended 30 November 20X7 was received on 2 December 20X7. Energy costs are included in administrative expenses.

**Required:**

**Prepare the statement of profit or loss and the statement of financial position of Malright Co as at 31 October 20X7.**

**(15 marks)**

**End of Question Paper**

---

# Answers

---

Section A

1 A

2 B

3 C

4 C

Payables:	\$
Balance b/f	60,000
Cash paid to suppliers	(302,800)
Discounts received	(2,960)
Contra	(2,000)
Balance c/f	(84,000)
Purchases	<u>331,760</u>

5 D

6 B

Current assets	\$
Loan asset	12,000
Interest (12,000 x 12%)	240
Prepayment (8/12 x 9,000)	6,000
Accrued rent	4,000
	<u>22,240</u>

7 C

	\$
Profit	83,600
Purchase of van	18,000
Depreciation 18,000 x 25%	(4,500)
	<u>97,100</u>

8 C

9 D

10 D

	\$
Balance b/f (advance)	28,700
Balance b/f (arrears)	(21,200)
Cash received	481,200
Balance c/f (advance)	(31,200)
Balance c/f (arrears)	18,400
	<u>475,900</u>

11 B



12 C

13 A

14 A

15 A

16 A

	\$
Balance b/f	550
Expense incurred (cash)	5,400
Accrual c/f	650
	<u>6,600</u>

17 C

	\$	\$
Debts written off		37,000
Movement in allowance: (517 – 37) x 5%	24,000	
Less opening allowance	39,000	
		<u>(15,000)</u>
Receivables expense		<u>22,000</u>

18 D

	\$
Balance per ledger	438,900
Less contra	(980)
Posting error	(90)
	<u>437,830</u>

19 B

20 B

$$(6,700 + 84,000 - 5,400) \times 20\% = \$17,060$$

21 B

	Share capital	Share premium
	\$	\$
Balance b/f	125,000	100,000
Rights issue	62,500	187,500
Bonus issue	37,500	(37,500)
	<u>225,000</u>	<u>250,000</u>

22 C

23 D

	\$
Depreciation:	
Jan-Mar $240,000 \times 20\% \times 3/12$	12,000
Apr-Jun $(240,000 - 60,000) \times 20\% \times 3/12$	9,000
Jul-Dec $(180,000 + 160,000) \times 20\% \times 6/12$	34,000
	<u>55,000</u>

24 C

10,200/42,500

25 A

26 B

27 C

28 D

$1,040 - 25 = \$1,015$

29 B

	\$
Overdraft per bank statement	(3,860)
Less: Unpresented cheques	(9,160)
Add: Outstanding lodgements	<u>16,690</u>
Cash at bank	<u>3,670</u>

30 B

31 D

Receivables ledger control account

	\$		\$
Opening balance	308,600	Cash	147,200
Credit sales	154,200	Discounts allowed	1,400
Interest charged on overdue accounts	2,400	Contras	4,600
		Irrecoverable debts	4,900
		Closing balance	<u>307,100</u>
	<u>465,200</u>		<u>465,200</u>

32 B

33 A

Closing inventory:

	\$
50 x \$190	9,500
500 x \$220	110,000
300 x \$230	69,000
	<u>188,500</u>

**34 A**

	\$
Opening assets	569,400
Opening liabilities	(412,840)
Capital introduced	65,000
Drawings (800 x 12)	(9,600)
	<u>211,960</u>
Profit (bal fig)	32,400
Closing net assets (614,130 – 369,770)	<u>244,360</u>

**35 C****Section B****1 (a) Consolidated statement of profit or loss for the year ended 31 May 20X6**

	\$000
Revenue (W1)	10,100
Cost of sales (W1)	(4,950)
Gross profit	<u>5,150</u>
Operating expenses (W1)	(3,160)
Profit before tax	<u>1,990</u>
Tax (W1)	(740)
Profit for the year	<u>1,250</u>

**(b) A**

**(c)** Non-controlling interest = \$80,000 (\$400,000 (W1) x 20%)

**(d)** The following factors illustrate the existence of a parent–subsidiary relationship: B, C, D, E.

**Workings****Working 1**

	Keswick Co \$000	Derwent Co \$000	Adjustments \$000	Consolidated \$000
Revenue	8,400	3,200	(1,500)	10,100
Cost of sales	(4,600)	(1,700)	1,500	(4,950)
Unrealised profit	(150)			
Operating expenses	(2,200)	(960)		(3,160)
Tax	(600)	(140)		(740)
	<u>850</u>	<u>400</u>		

**2 Statement of profit or loss for the year ended 31 October 20X7**

	\$000
Revenue	1,800
Cost of sales (W1)	(1,284)
Gross profit	<u>516</u>
Administrative expenses (325 + 10 (W4) + (16 (W3) – 10))	(341)
Profit for the year	<u>175</u>

**Statement of financial position as at 31 October 20X7**

	\$000	\$000
<b>Assets</b>		
Non-current assets (W2)		731
Current assets		
Inventories	75	
Trade receivables (W3)	304	
Cash	20	
		<u>399</u>
Total assets		<u>1,130</u>
<b>Equity and liabilities</b>		
Equity		
Share capital	415	
Retained earnings (130 + 175)	305	
Share premium	80	
		<u>800</u>
Current liabilities		
Trade and other payables (250 + 10 (W4))	260	
Bank overdraft	70	
		<u>330</u>
Total equity and liabilities		<u>1,130</u>

**Workings**

**Working 1**

	\$000
Cost of sales	
Opening inventory	160
Purchases	1,140
Closing inventory	(75)
	<u>1,225</u>
Depreciation (W2)	59
	<u>1,284</u>

**Working 2**

	Property \$000	Plant \$000	Total \$000
Cost	740	220	960
Depreciation b/f	(60)	(110)	(170)
Depreciation for year			
740 x 5%	(37)		
(220 – 110) x 20%		(22)	(59)
Net book value 31 October 20X7	<u>643</u>	<u>88</u>	<u>731</u>

**Working 3**

Trade receivables  
Allowance = 320,000 x 5% = \$16,000  
320,000 – 16,000 = \$304,000

**Working 4**

Energy cost accrual  
15,000 x 2/3 = \$10,000

	<i>Marks</i>
<b>1 (a)</b> Format of consolidated statement of profit or loss	1
Revenue	2
Cost of sales	2
Operating expenses	1
Tax expense	1
	<hr/> 7
<b>(b)</b>	2
<b>(c)</b>	2
<b>(d)</b>	4
	<hr/> <b>15</b>
<b>2</b> Formats	1
Statement of profit or loss	
Revenue	0.5
Cost of sales	3.5
Administrative expenses	2.5
Statement of financial position	
Non-current assets	1
Inventory	0.5
Receivables	1.5
Cash	0.5
Share capital	0.5
Retained earnings	1.5
Share premium	0.5
Payables	1
Overdraft	0.5
	<hr/> <b>15</b>